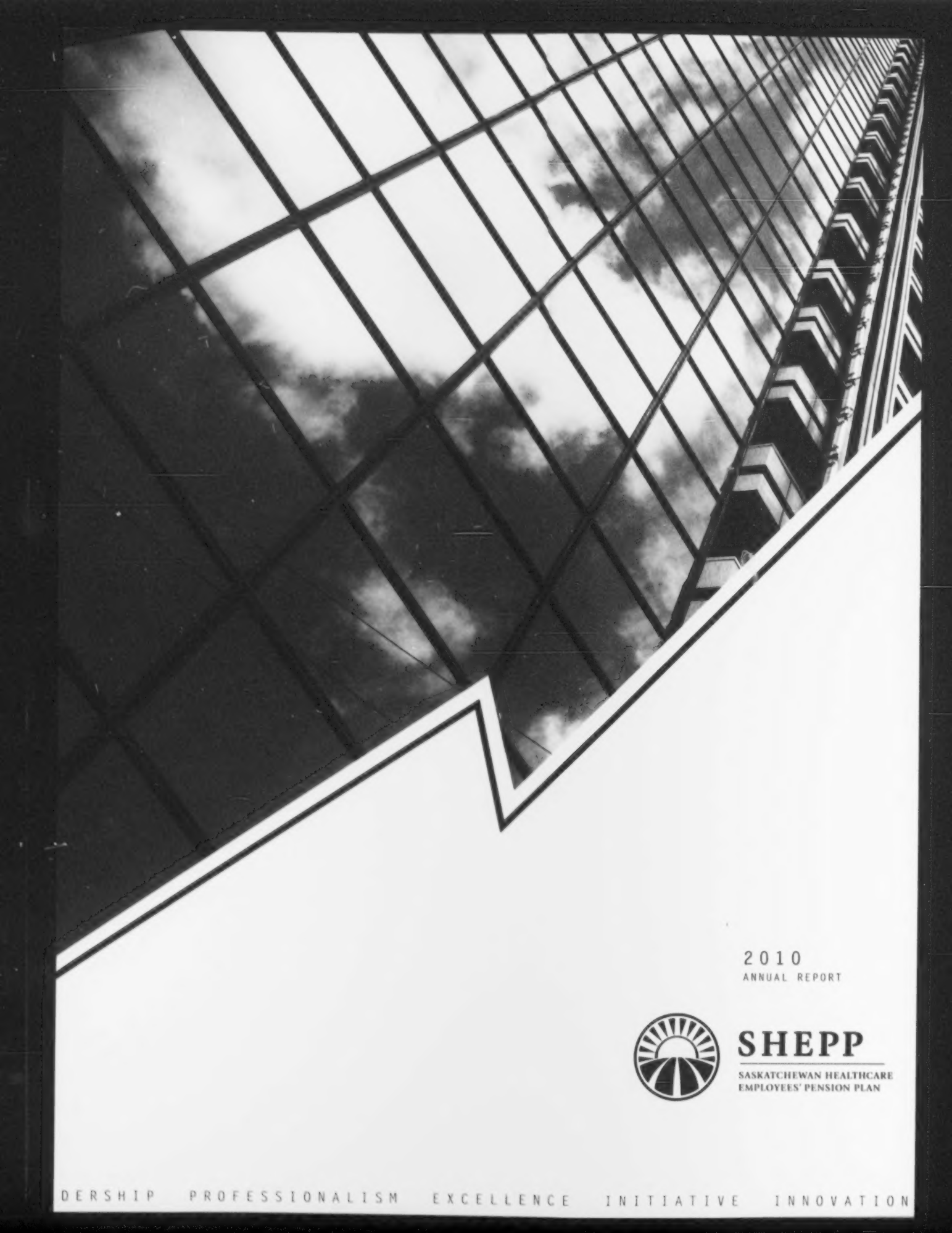

2010
ANNUAL REPORT

SHEPP

SASKATCHEWAN HEALTHCARE
EMPLOYEES' PENSION PLAN

DERSHIP PROFESSIONALISM EXCELLENCE INITIATIVE INNOVATION

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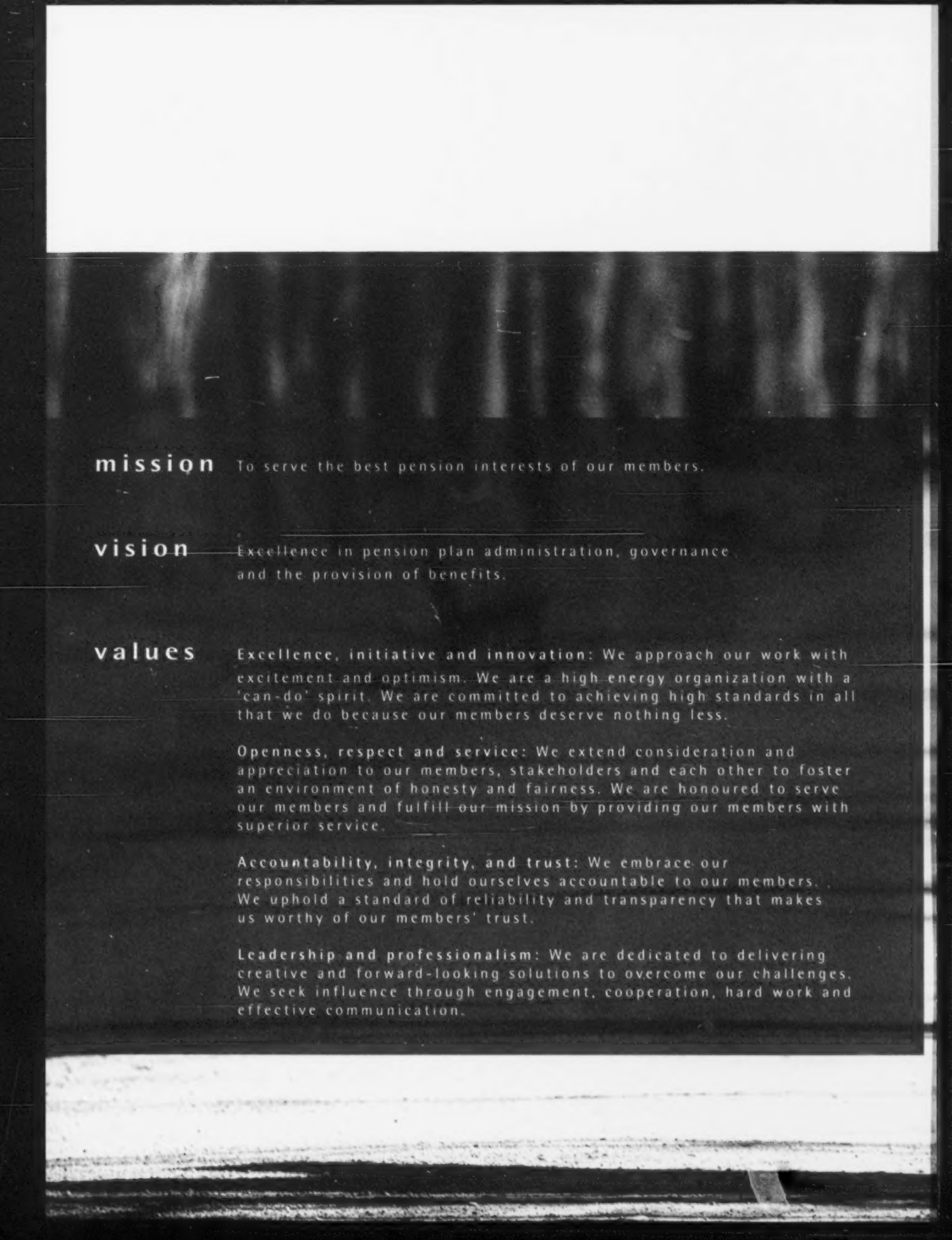
SHEPP

SASKATCHEWAN HEALTHCARE EMPLOYEES' PENSION PLAN



mission

To serve the best pension interests of our members.

vision

Excellence in pension plan administration, governance and the provision of benefits.

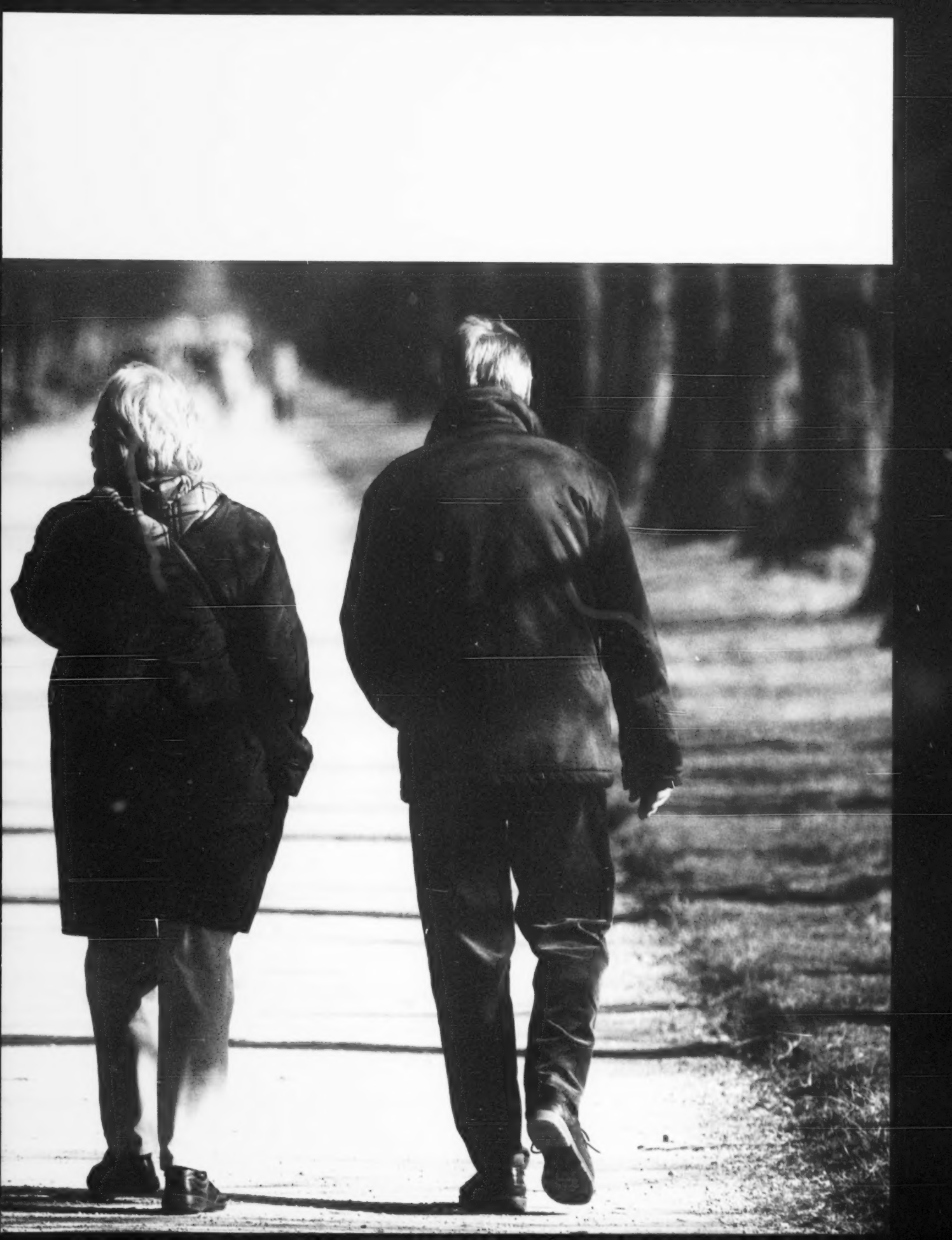
values

Excellence, initiative and innovation: We approach our work with excitement and optimism. We are a high energy organization with a 'can-do' spirit. We are committed to achieving high standards in all that we do because our members deserve nothing less.

Openness, respect and service: We extend consideration and appreciation to our members, stakeholders and each other to foster an environment of honesty and fairness. We are honoured to serve our members and fulfill our mission by providing our members with superior service.

Accountability, integrity, and trust: We embrace our responsibilities and hold ourselves accountable to our members. We uphold a standard of reliability and transparency that makes us worthy of our members' trust.

Leadership and professionalism: We are dedicated to delivering creative and forward-looking solutions to overcome our challenges. We seek influence through engagement, cooperation, hard work and effective communication.



From the Chair and Vice-Chair

We are pleased to present the 2010 Annual Report for the Saskatchewan Healthcare Employees' Pension Plan (SHEPP).

Jim Tomkins
Chair

Andrew Huculak
Vice-Chair

Excellence in Governance

The Board is committed to serving the best pension interests of our members through a strong focus on governance. We expect to achieve excellence in governance by devoting quality time to strategy and executive leadership to address issues that impact the long-term success of the Plan.

In 2010 we conducted our eighth annual governance self-assessment, participated in a governance benchmarking study against other plans and best practices, participated in a day long full-Board governance workshop, conducted a strategic planning session and held regular discussions with our CEO and professional advisors on strategic issues. We are very confident in our 2011 – 2013 strategic plan produced by these efforts.

Focus on Funding

In September we received the Plan actuary's December 31, 2009 valuation report. This valuation provided a full assessment of the impact of the 2008 financial market crisis upon the Plan. On a going-concern basis the Plan's unfunded liability increased from $255 million at December 31, 2007 to $623 million at December 31, 2009. Our funding action plan anticipated this result. On the recommendation of the Plan actuary we implemented a contribution rate increase effective April 2010 to narrow the funding gap. A further contribution rate increase has been recommended by the actuary and will occur in April 2011 to meet the full December 31, 2009 valuation going-concern funding requirements.

The next actuarial valuation will be performed at December 31, 2010. Provincial pension regulation requires a solvency test be performed to determine the Plan's funded status as if the Plan had been terminated on December 31, 2010. A solvency deficit can cause a significant increase in member and employer contribution rates. The Board does not believe the Plan faces a material threat of termination. On that basis the Board believes the only meaningful measure of the Plan's financial health is as a going concern. The Board will give consideration to electing a three-year moratorium from funding any solvency deficit arising in the December 31, 2010 actuarial valuation.

Investment Performance

The SHEPP fund achieved a 12.2 per cent rate of return in 2010 outperforming the benchmark of 12 per cent. This follows a return of 15.1 per cent in 2009. These two years of strong investment performance are expected to contribute to our funding recovery.

Managing Risk

As the Plan's funded status improves there may be opportunity to reduce investment risk. We are engaged with our administration and advisors in developing and implementing a pension risk management strategy to establish the path through which de-risking and, if and when appropriate, re-risking can occur.

Changes to the Board

We extend our best wishes to long-serving Trustee Joe Rybinski on his retirement and welcome two new Trustees to the Board: Dale Markewich, appointed by the Saskatchewan Association of Health Organizations to replace Joe Rybinski, and Russell Doell, appointed by SEIU-West to replace Muriel Morhart, who resigned at the end of 2009.

In Closing

As the Board moves into its ninth year, we would like to thank our members and employers for your support and ongoing commitment to SHEPP. We look forward to serving you in the future.

From the CEO

Brad Garvey
CEO

SHEPP stands on the strong foundation built over forty-eight years of successfully delivering the pension promise. Upon that foundation we are building an even stronger organization. We are doing this by developing effective leaders from within our ranks, creating and supporting high-performance teams spanning all organizational areas, keeping our focus on our members and effectively identifying and managing the risks that may stand in the way of us achieving our primary objective of securing the benefits of our members.

Forming and sustaining high-performance teams is a key objective for our leaders. In support of that initiative our leaders are actively engaged in developing their skills to be both high-performance team members and team leaders. Our leaders are also challenged and supported to participate in nationally recognized leadership development programs. These are significant demands upon our leaders and their success in these endeavours reflects their commitment to our organization.

Our efforts to align our asset and liability management teams through the integrated asset/liability working group paid a significant dividend for us in 2010. Members of this working group were a driving force in the development of a revised Funding Policy approved by the Board in February. The Funding Policy clearly sets out the disciplined strategies we will follow to achieve our primary objective of securing member benefits and our secondary objective of stabilizing contribution rates.

We continue to develop technological capacity to deliver quality service to our members and participating employers and to remain a low-cost operation. *SHEPPWeb*, our secure online service for participating employers and active members, remains our technological hub. In 2010 we took the significant step of amending the Plan text to provide for members to make their Plan beneficiary designations online through *SHEPPWeb*. Bringing this high-volume activity, with its demand for absolute accuracy, into secure online member processing is a great example of how we use technology to enhance service and contain costs.

Overcoming a $623 million unfunded liability is the key challenge facing the Plan. I am very confident that our funding action plan will bring about a full funding recovery within fifteen years and that we will succeed in developing and implementing a pension risk management strategy that will position the Plan to provide benefits to many future generations of healthcare employees on a sustainable basis.

The SHEPP team is an administrative powerhouse. I thank the SHEPP team for their hard work and dedication and the Board of Trustees for their support throughout the year.

Profile

About Us

The Saskatchewan Healthcare Employees' Pension Plan (SHEPP) is the largest defined benefit pension plan in Saskatchewan.

Originally established in 1962 for Saskatchewan hospital employees, the Plan has grown to become the pension Plan for over 46,500 current and former healthcare workers in the province.

With its competitive pension formula, enriched early retirement and bridge benefits, portability and transfer features, the Plan forms the foundation for financial security for members at retirement.

Board of Trustees

The Board is made up of four employer appointed and four employee appointed trustees. The Saskatchewan Association of Health Organizations (SAHO) appoints the employer trustees and the four largest healthcare unions each appoint one employee trustee.

Partner Committees

Plan design issues, such as the pension calculation formula and retirement eligibility rules are negotiated by two partner committees representing employers and employees.

SAHO appoints representatives to the employer committee, and six healthcare unions appoint representatives to the employee committee:

Canadian Union of Public Employees
Health Sciences Association of Saskatchewan
Retail, Wholesale and Department Store Union
Saskatchewan Government and General Employees' Union
Saskatchewan Union of Nurses
SEIU-West

SHEPP Employees

Under the oversight of the Board of Trustees, the CEO and his 25 employees are responsible for the day-to-day operation of the Plan.

Participating Employers

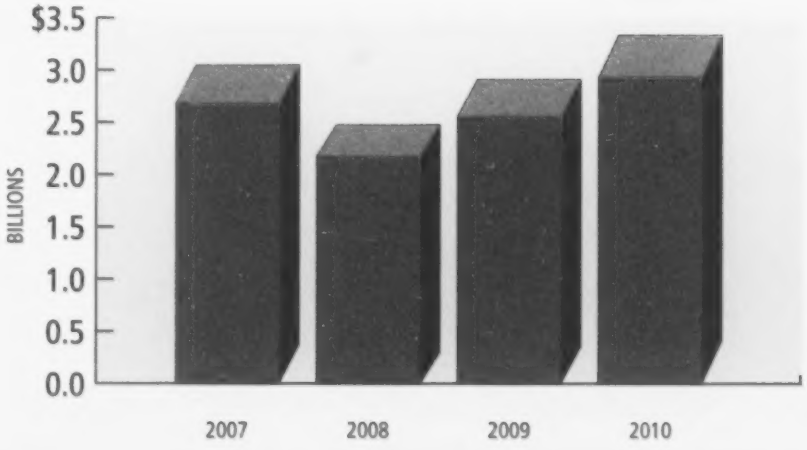
There are 65 healthcare employers participating in SHEPP.

All Nations' Healing Hospital
Alzheimer Society of Saskatchewan Inc.
Angus Campbell Centre
Bethany Pioneer Village
Birch Manor
Border-Line Housing Co. (1975) Inc.
Creighton Alcohol and Drug Abuse Council
Cupar & District Nursing Home
Cypress Regional Health Authority
Deer Park Villa Inc.
Dr. Noble Irwin Regional Healthcare Foundation Inc.
Eaglestone Lodge - Personal Care Home Inc.
Eatonia Oasis Living Inc.
Elmwood Residences Inc.
Extendicare Moose Jaw
Extendicare Regina
Extendicare Saskatoon
Five Hills Regional Health Authority
Foyer St. Joseph Nursing Home
Gull Lake & District Road Ambulance Board Corporation
Haven of Hope Home
Heartland Regional Health Authority
Herbert Group Home
Ina Grafton Gage Home
Keewatin Yatthé Regional Health Authority
Kelsey Trail Regional Health Authority
Langham Senior Citizen's Home
Lumsden & District Heritage Home
LutherCare Communities
Mamawetan Churchill River Regional Health Authority
Métis Addictions Council of Saskatchewan Inc.
Mont St. Joseph Inc.
Moose Jaw Health Foundation
North Saskatchewan Laundry & Support Services Ltd.
Oak Trees & Acorns Child Care Centre Inc.
Pioneers Haven Co. Inc.
Prairie North Regional Health Authority
Prince Albert Parkland Regional Health Authority
Providence Place for Holistic Health Inc.
Qu'Appelle House
Radville Marian Health Centre
Regina Lutheran Care Society
Regina Lutheran Home
Regina Qu'Appelle Regional Health Authority
Regina Recovery Homes Inc.
Registered Psychiatric Nurses Association of Saskatchewan
Saint Joseph's Health Centre
Saint Joseph's Home
Saint Joseph's Hospital, Estevan
Saint Joseph's Hospital, Gravelbourg
Salvation Army William Booth Special Care Home
Santa Maria Senior Citizens Home Inc.
Saskatchewan Voice of People with Disabilities Inc.
Saskatchewan Association of Health Organizations
Saskatchewan Association of Licensed Practical Nurses
Saskatchewan Cancer Agency
Saskatchewan Healthcare Employees' Pension Plan
Saskatchewan Society of Medical Laboratory Technologists Inc.
Saskatoon Housing Coalition
Saskatoon Regional Health Authority
Spadina Early Learning and Childcare Co-operative
Sun Country Regional Health Authority
Sunrise Regional Health Authority
The Health Foundation of East Central Saskatchewan, Inc.
Yorkton Mental Health Drop-in Centre

Financial Highlights

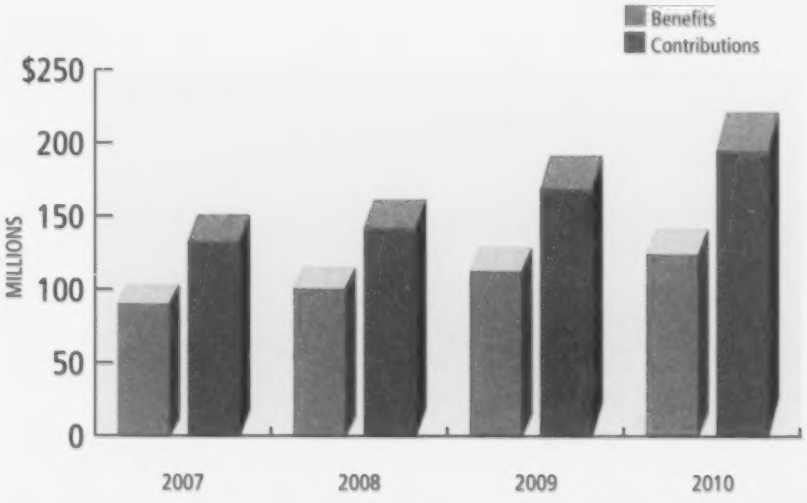
	2010 ($000's)	2009 ($000's)	2008 ($000's)	2007 ($000's)
Net Assets Available for Benefits	**3,355,850**	**2,932,800**	**2,499,878**	**3,072,654**
Accrued Pension Obligation	**3,765,300**	**3,782,400**	**3,512,971**	**2,888,346**
Contributions				
Member Required	103,672	89,879	75,415	70,017
Employer Required	116,112	100,664	84,464	78,419
Other	2,952	2,123	3,021	3,904
Total Contributions	**222,736**	**192,666**	**162,900**	**152,340**
Benefit Payments				
Pensions	116,037	104,515	93,519	82,942
Terminations and Deaths	27,422	25,460	22,820	21,611
Total Benefit Payments	**143,459**	**129,975**	**116,339**	**104,553**
Plan Expenses				
Administrative	4,162	3,680	3,469	3,045
Investment	12,215	10,611	9,450	8,236
Total Plan Expenses	**16,377**	**14,291**	**12,919**	**11,281**

Net Assets Available for Benefits



Net assets available for benefits increased by $423 million in 2010.

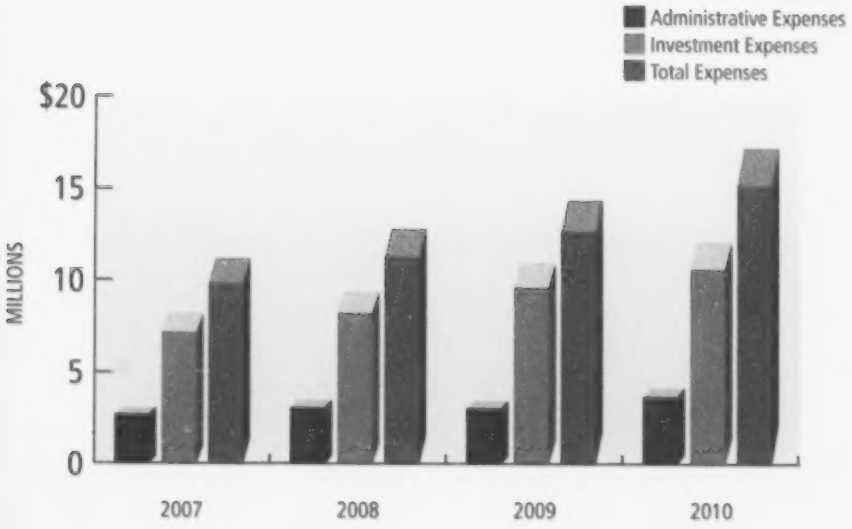
Benefits and Contributions



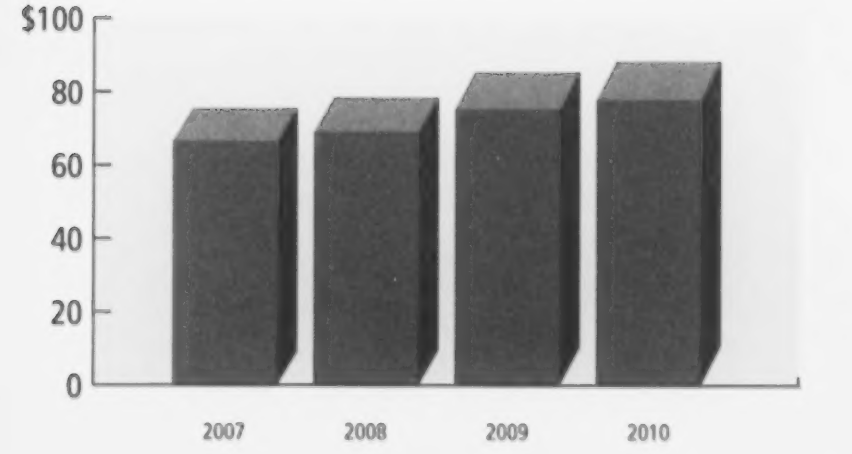
Employee and employer contributions to the Plan were $223 million in 2010.

A total of $143 million was paid out in pension, termination and death benefits during the year, a 10 per cent increase over the previous year.

Administrative Expenses, Investment Expenses, and Total Expenses



Administrative Cost per Member



In 2010, the cost of providing services to Plan members was $89 per member. This cost ranks among the lowest compared to other Canadian public sector pension plans that benchmark costs. SHEPP remains committed to administering the Plan in a cost effective manner.

Member Services

We provide a number of services to members throughout their entire membership in the Plan. Whether they are receiving pension benefits, thinking about retirement or new members to the Plan, our goal is to provide the highest quality of service.

This means friendly, timely and accurate service designed to keep them informed and provide them with the personalized information they need to make informed decisions.

Customer Service

We provide friendly and efficient customer service in person, by phone, fax, regular mail and e-mail. SHEPP handled thousands of requests for information from members in 2010. For example, SHEPP performed 8,523 retirement, termination and death benefit calculations and 138 spousal relationship breakdown calculations last year.

We continued to deliver presentations throughout the province to enhance stakeholder understanding of the Plan's terms and conditions and strengthen our relations with members and participating employers.

Personalized Information

Annually, active and deferred members receive personal statements of their SHEPP benefits, contributions and service. The statements use a friendly format to help members better understand the key features of their SHEPP benefits.

Print and Online Materials

We publish a full range of printed materials relating to the Plan. Among those is the Plan booklet, which explains the Plan and its benefits.

Information sheets such as beneficiary designations, purchase of prior service, spousal relationship breakdown, power of attorney and portability agreement transfers are available, and information sheets on other topics are planned for the future.

Our web site at www.shepp.ca provides a wealth of information on everything from governance to investments, as well as links to other sites.

*SHEPP*Web

*SHEPP*Web is the secure online pension information service for active Plan members located at www.shepp.ca. Through *SHEPP*Web active Plan members can:

- perform unlimited pension projection calculations;
- perform unlimited prior service purchase cost estimate calculations;
- view and print their most recent member's annual statement;
- view and update key portions of their SHEPP member record; and
- request pension estimates, prior service purchase and spousal relationship breakdown calculations from SHEPP.

On enrollment in the Plan members receive a *SHEPP*Web username and password directly from SHEPP. This service gives members more flexibility and access to their pension information 24 hours a days, seven days a week.

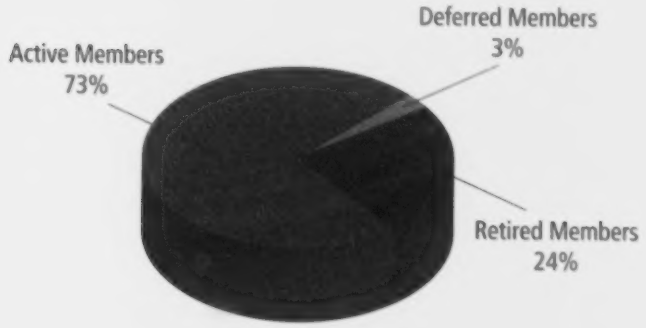
Over 33,800 personal statements were mailed to members last year.

In 2010, SHEPPWeb was accessed by 8,947 users and more than 935,571 pages were viewed.

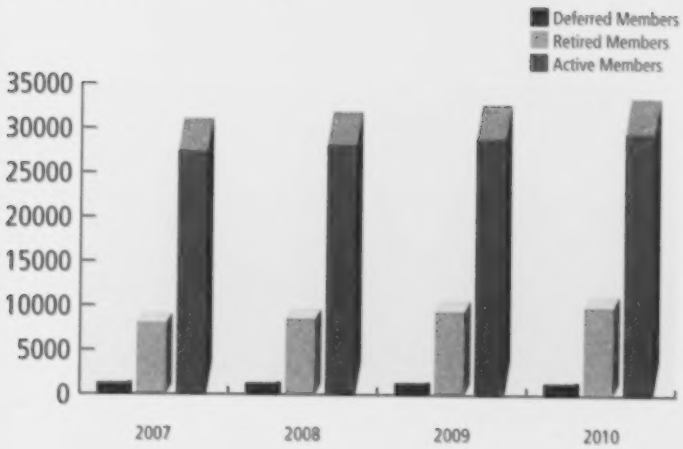
SHEPP Serves 46,591 Members

- 33,923 active members (including members absent from employment due to approved disability)
- 11,174 retired members, surviving spouses and beneficiaries
- 1,494 deferred members or former members who left their funds in SHEPP to collect a pension at retirement

Our Membership



Historical Profile



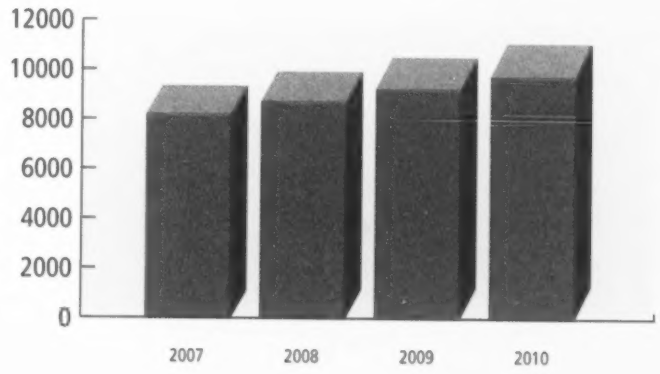
SHEPP welcomed 2,611 new members in 2010. About 89 per cent of members are women. 44 per cent of members work less than full-time. The average age of active Plan members is 45.3 years old. 2,917 members were absent from employment for all or part of 2010 due to approved disability. These members received service credit under the Plan for the period of approved disability.

Member Services

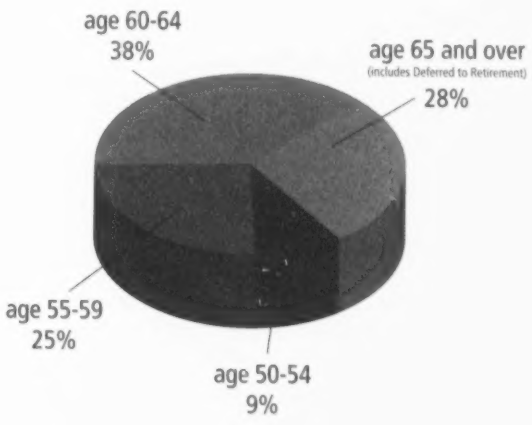
Retired Members, Spouses and Beneficiaries

In 2010, we provided accurate and timely pension payments to 11,174 retired members, surviving spouses and beneficiaries of retired members, including 566 newly retired members.

Number of Retired Members, Spouses and Beneficiaries



Age of New Retired Members



During the next 10 years, 14,534 members will be eligible to retire with an unreduced pension.

The average new lifetime pension in 2010 was $1,362 per month. In addition, the average new bridge benefit was $297.50 per month for members who met the rule of 80 (age plus credited service).

Fund Performance

How the Fund is Invested

SHEPP's assets are invested in accordance with the Board of Trustees' investment philosophy and objectives, which are outlined in the Statement of Investment Policies and Procedures.

The Board's goal is to ensure there will be sufficient funds available to pay the benefits promised under the Plan. The investment goal is one of prudence, with a view to earning the best possible returns within an acceptable level of risk.

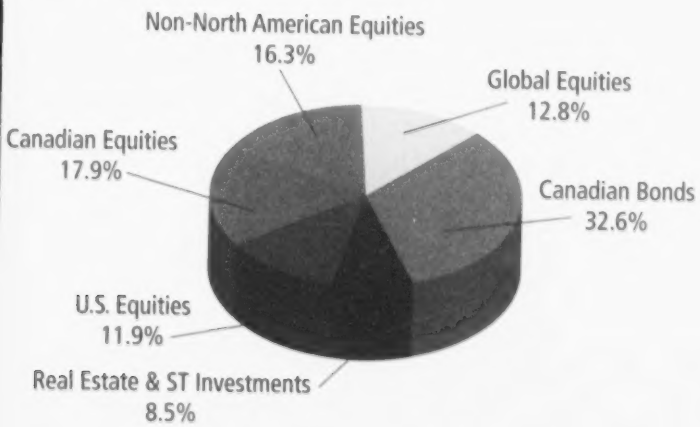
What the Fund is Invested in

The following charts show the Fund's investments by asset class.

Historical Asset Mix (%)

	2007	2008	2009	2010
Canadian Equities	20.7	15.5	17.8	17.9
Non-North American Equities	20.1	14.9	16.0	16.3
Global Equities	N/A	12.2	13.2	12.8
U.S. Equities	18.3	10.6	12.2	11.9
Real Estate	0.7	1.7	4.2	7.0
Canadian Bonds	39.1	42.9	35.5	32.6
Short-Term Investments	1.1	2.2	1.1	1.5
	100	100	100	100

Asset Mix



In 2010, the Fund achieved an investment return of 12.2 per cent. SHEPP ranked 52nd largest pension plan in Canada by asset size. Investment expenses consist of fund manager, consultant and custodian fees.

Fund Performance

2010 Investment Performance

The long term performance objectives of the Fund's investments are to outperform the benchmark set for the total Fund and for each asset class. The benchmarks reflect the performance of the markets in which the Fund is invested.

In 2010, the Fund achieved a 12.2 per cent rate of return. The total Fund return outperformed the total Fund benchmark return by 0.2 per cent for the year, due mainly to active management led by bonds and real estate.

The Fund's four year annualized rate of return was 1.5 per cent versus the comparative benchmark return of 1.4 per cent and the 10 year annualized rate of return was 5.2 per cent versus 4.6 per cent for the benchmark.

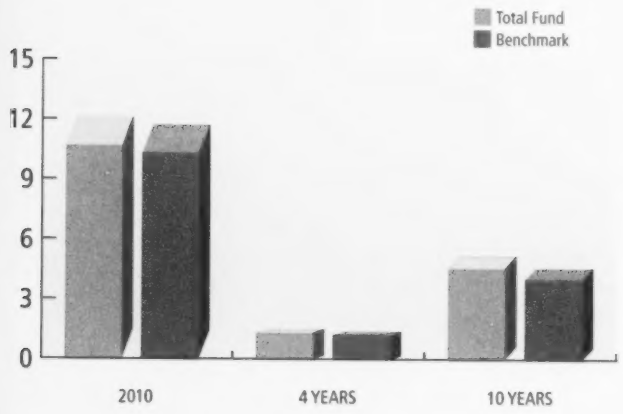
Total Fund Return

	2008	2009	2010
Annual return	-19.8	15.1	12.2
Annual benchmark	-21.1	16.9	12.0
Four year annualized return	1.2	1.9	1.5
Four year annualized benchmark	0.4	1.7	1.4

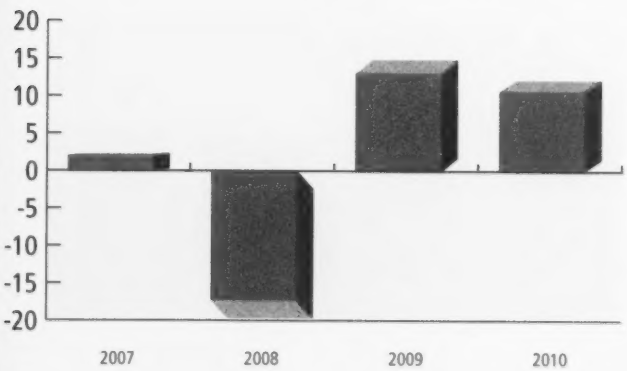
SHEPP's Statement of Investment Policies and Procedures is available online at www.sheppinfo@shepp.ca.

Fund Performance

Total Fund vs. Benchmark Return (%)



Historical Total Fund Return (%)



SHEPP's long-term target asset mix is about 60 per cent equities, 25 per cent fixed-income (bonds), 10 per cent real estate and five per cent infrastructure.

Management's Responsibility for Financial Reporting

The SHEPP consolidated financial statements and all the information in this Annual Report are the responsibility of management and have been approved by the Board of Trustees.

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include some amounts that are necessarily based on management's best estimates and judgments. Financial and operating information presented in the Annual Report are consistent with the consolidated financial statements. Systems of internal control and practices are maintained to provide reasonable assurance that transactions are authorized, assets are safeguarded and proper records are maintained.

KPMG LLP, the external auditor appointed by the Board of Trustees, has conducted an independent examination of the consolidated financial statements in accordance with generally accepted auditing standards, performing such tests and other procedures as they consider necessary to express an opinion in the Auditors' Report. The external auditor has unrestricted access to management and the Board of Trustees to discuss any findings related to the integrity of the Plan's financial reporting and adequacy of the internal control systems.

Brad Garvey
CEO

Auditors' Report

KPMG LLP
Chartered Accountants
McCallum Hill Centre, Tower II
1881 Scarth Street, 20th Floor
Regina Saskatchewan S4P 4K9
Canada

Telephone (306) 791-1200
Fax (306) 757-4703
Internet www.kpmg.ca

To the Board of Trustees of the Saskatchewan Healthcare Employees' Pension Plan

We have audited the accompanying financial statements of Saskatchewan Healthcare Employees' Pension Plan, which comprise the statement of net liabilities as at December 31, 2010, and the statements of changes in net assets (liabilities) for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for pension plans, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Saskatchewan Healthcare Employees' Pension Plan as at December 31, 2010, and its changes in net liabilities for the year then ended in accordance with Canadian generally accepted accounting standards for pension plans.

KPMG LLP

Chartered Accountants

Regina, Canada
May 26, 2011

KPMG LLP, is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG international, a Swiss cooperative. KPMG Canada provides services to KPMG LLP.

SASKATCHEWAN HEALTHCARE EMPLOYEES' PENSION PLAN

Statement of Net Liabilities

As at December 31

	2010 (000's)	2009 (000's)
ASSETS		
Investments (Note 4)	$ 3,330,864	$ 2,913,942
Accrued interest receivable	489	444
Members' contributions receivable	9,222	7,967
Employers' contributions receivable	10,329	8,923
Dividends receivable	2,196	2,600
Securities transactions receivable	4,716	-
Capital assets (Note 7)	132	103
Intangible assets (Note 8)	1,017	1,263
Other receivables	209	178
Prepaid expenses	60	73
	3,359,234	2,935,493
LIABILITIES		
Accounts payable	3,384	2,173
Securities transactions payable	-	520
Provision for accrued pension benefits (Note 11)	3,765,300	3,782,400
	3,768,684	3,785,093
NET LIABILITIES	$ (409,450)	$ (849,600)

Commitments (Note 12)

See accompanying notes

On behalf of the Board:

Chair

Vice-Chair

SASKATCHEWAN HEALTHCARE EMPLOYEES' PENSION PLAN
Statement of Changes in Net Assets (Liabilities)
For the Year Ended December 31

	2010 (000's)	2009 (000's)
INCREASE IN NET ASSETS		
Contributions - Members	$ 103,672	$ 89,879
- Employers	116,112	100,664
- Other	2,952	2,123
Investment income (Note 9)	52,177	47,720
Net realized gain on investments	95,880	10,980
Realized gain on foreign exchange	42,895	39,832
	413,688	291,198
DECREASE IN NET ASSETS		
Pension benefits	116,037	104,515
Terminations and death benefits	27,422	25,460
Change in provision for accrued pension benefits (Note 11)	(17,100)	269,429
	126,359	399,404
EXPENSES		
Administrative expenses	3,042	2,901
Custodian fees	362	336
Fund management fees	10,967	9,212
Investment consulting fees	290	283
Investment transaction fees	596	780
Professional fees	1,120	779
	16,377	14,291
	142,736	413,695
UNREALIZED GAINS (LOSSES)		
Unrealized market value gain	193,634	303,190
Unrealized loss on foreign exchange	(24,436)	(17,200)
	169,198	285,990
NET INCREASE IN NET ASSETS	440,150	163,493
NET LIABILITIES, BEGINNING OF YEAR	(849,600)	(1,013,093)
NET LIABILITIES, END OF YEAR	$ (409,450)	$ (849,600)

See accompanying notes

1. Saskatchewan Healthcare Employees' Pension Plan

The Saskatchewan Healthcare Employees' Pension Plan (SHEPP) is a multi-employer defined benefit pension plan registered under *The Pension Benefits Act, 1992* (Saskatchewan) and the *Income Tax Act* (Canada). The Plan is governed by a Board of Trustees pursuant to an Agreement and Declaration of Trust dated December 31, 2002. Four trustees are appointed by the Saskatchewan Association of Health Organizations (SAHO) and four healthcare unions each appoint one trustee. The Chief Executive Officer and SHEPP staff are responsible for the administration of the Plan, subject to Board monitoring and review.

2. Description of Plan

The following description of the Plan is a summary only. For more complete information reference should be made to the Plan text.

a) Effective date

The effective date of the Plan was March 1, 1962.

b) Eligibility

Eligible permanent full-time and permanent part-time employees of SHEPP employers must participate.

Membership is optional for eligible casual and temporary employees who work at least 780 hours in the immediately preceding calendar year or at least 700 hours in each of the two immediately preceding calendar years.

c) Member contributions

SHEPP employers are responsible for the accuracy and completeness of the payroll information on which contributions are remitted and benefits determined under the Plan. Contributions are made by both members and SHEPP employers in accordance with the provisions of the Plan.

For the period from January 1 to March 31, 2010 members were required to contribute 6.6 per cent of their pensionable earnings up to the Year's Maximum Pensionable Earnings (YMPE) and 9.0 per cent of pensionable earnings above the YMPE. For the period from April 1 to December 31, 2010 members are required to contribute 7.2 per cent of their pensionable earnings up to the Year's Maximum Pensionable Earnings (YMPE) and 9.6 per cent of pensionable earnings above the YMPE.

Plan members may purchase eligible prior service provided they satisfy the full purchase cost. These contributions are referred to as additional purchased service contributions and may be purchased on a current service or prior service basis.

Plan members may transfer in service and contributions from the pension plan of a prior employer. These contributions are referred to as portability transfer contributions.

d) Employer contributions

Employers contribute 112 per cent of a member's required contributions.

2. Description of Plan (continued)

e) Amount of pension

Subject to the maximum pension limits set out in the Plan Text the basic lifetime pension is equal to the sum of:

(i) 2 per cent of highest average contributory earnings (HACE)[1] multiplied by years of credited service up to December 31, 1989, plus

(ii) 1.65 per cent of highest average base contributory earnings (HABCE)[2] plus two per cent of highest average excess contributory earnings (HAECE)[3] multiplied by years of credited service between January 1, 1990 and December 31, 2000, plus

(iii) 1.4 per cent of highest average base contributory earnings (HABCE) plus two per cent of highest average excess contributory earnings (HAECE) multiplied by years of credited service after January 1, 2001.

f) Retirement dates

The normal retirement date of a member is the first day of the month coincident with or next following the member's 65th birthday.

Members can retire early with an unreduced pension as soon as their age and years of credited service add up to 80 years.

Members can retire with a reduced pension anytime after age 55 with at least two years of service. The reduction applied to the member's pension depends on how long the member has worked for his or her employer. If the member has worked for at least 10 years, the pension is reduced by the lesser of:

(i) Three per cent multiplied by the number of years, and portions thereof, that the member is short of age 65, and

(ii) Three per cent multiplied by the number of years, and portions thereof, that the member's age plus credited service is short of 80 years, and

(iii) the greater of:

(a) Three per cent multiplied by the number of years, and portions thereof, that the member is short of age 62, and

(b) Three per cent multiplied by the number of years, and portions thereof, that the member's credited service is short of 20 years.

A member may delay receipt of pension payments until December 1 of the year in which they attain age 71. In this event, pension accruals will continue in the normal manner.

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[1] HACE – is the average of a member's four highest years of contributory earnings.
[2] HABCE – is the average of a member's contributory earnings up to the Year's Maximum Pensionable Earnings during the five highest calendar years of contributory earnings.
[3] HAECE – is the difference between a member's HACE and HABCE.

2. Description of Plan (continued)

g) Death in service

On the death of a member before retirement, the member's surviving spouse receives the greater of:

(i) the sum of:

(a) the commuted value of the member's pension earned to the date of death in respect of all core credited service, plus excess contributions, if any, and

(b) the member's accumulated additional purchased service and portability transfer contributions, plus interest, and

(ii) the sum of:

(a) the commuted value of the member's core credited service pension earned from January 1, 1992 to the date of the member's death, plus excess contributions, if any, and

(b) twice the member's required contributions, with respect to pre-1992 core credited service, plus interest, plus the member's additional purchased service contributions and portability transfer contributions, plus interest.

If the member is not survived by a spouse, or the spouse has completed and submitted the pre-retirement death benefit waiver form prescribed under *The Pension Benefits Act, 1992* (Saskatchewan), the death benefit is payable in a lump sum to the member's designated beneficiary or estate.

h) Normal form of pension

The normal form of pension provides for monthly payments for life, with a minimum of 60 monthly payments being guaranteed in any event. Optional forms of pension are available on an actuarial equivalent basis. If the retiring member has a spouse, a joint life optional pension reduced by not more than 40 per cent on the member's death must be elected unless the spouse has waived this option.

i) Termination of employment

Benefit entitlement to members who are terminated depends upon whether or not the member is vested.

A member is vested if on termination, the member has:

- more than two years of credited service in which case the benefit is not locked in, or
- more than two years of continuous service in which case the benefit is locked in.

A non-vested member is entitled to a refund of his or her own required and additional purchased service contributions, plus interest as either:

- a taxable payment issued directly to the member, or
- a tax exempt transfer directly to the member's personal registered retirement savings plan or other qualifying vehicle.

A vested member may discharge his or her non-locked in deferred pension and receive a refund of his or her own required and additional purchased service contribution as either:

- a taxable payment issued to the member, or
- a tax-exempt transfer directly to the member's personal RRSP or other qualifying vehicle.

2. Description of Plan (continued)

A vested member is entitled to a deferred pension payable at age 65. The member's deferred pension is calculated based on the member's credited service and contributory earnings at the date of termination.

A vested member may discharge his or her locked-in deferred pension and transfer the present value of the deferred pension to a personal registered retirement savings plan or another registered pension plan, providing the funds transferred are administered on a locked-in basis.

j) Disability benefit

Members who become disabled under the terms of the Plan will continue to earn credited service under the Plan. Their pension at retirement is based on all years of credited service including those on approved disability, and their highest average contributory earnings are calculated assuming they had made contributions during disability based on their salary when the disability commenced.

k) Maximum employee cost

At least 50 per cent of the cost of the benefit payable at retirement or termination of employment to a member who is vested and locked-in must be provided by employer contributions. Any "excess" contributions on termination or retirement are refundable to the member.

l) Interest

For the purpose of calculating accumulated member contributions, interest rates are applied in respect of required contributions at the rates of interest determined by SHEPP from time to time, but in no event are lower than the minimum rate required by *The Pension Benefits Act, 1992* (Saskatchewan).

3. Significant Accounting Policies

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in Canada (Canadian GAAP).

a) Basis of presentation

During the current year SHEPP's investment in a 100 per cent owned subsidiary that was previously consolidated was reclassified to real estate equity investments. This change resulted in a decrease in investments, mortgages payable and other current assets and liabilities of $28,781,000, $27,367,000 and $1,414,000 respectively as at December 31, 2009. This reclassification did not result in a change in 2009 net increase (decrease) in net assets.

Effective January 1, 2011 the Plan will adopt section 4600 of the CICA Handbook which replaces section 4100. This section provides guidance on the measurement of the Plan's pension obligation and any investments held by the Plan. This section also provides the Plan with the ability to select to follow International Financial Reporting Standards (IFRS) or Accounting Standards for Private Enterprises for all other accounting policies.

The Plan will follow IFRS as that is the set of accounting standards selected by the Plan. At this time management does not expect there to be a significant impact on the Plan's financial statements.

3. Significant Accounting Policies (continued)

b) Revenue recognition

Interest on bonds, debentures, mortgages and short term investments is recognized as it accrues. Income from income producing properties is recognized on the accrual basis as earned. Dividend income is recognized as of the date of record. Investment transactions are accounted for on the trade date. Realized gains and losses on currency forward contracts are recognized on the settlement date and unrealized gains and losses are recognized with reference to the fair value determined using appropriate valuation techniques. The Plan follows the accrual method for the recording of income and expenses.

c) Financial instruments

Bonds, equities and short term investments are valued at fair value based on year-end market quotations. Bond, mortgage and equity pooled funds are valued at fair value based on the quoted market values of the underlying investments, based on the latest bid prices. Unlisted bonds are valued at fair value reflecting current market yields of similar debt obligations. Currency forward contracts are valued at fair value determined using appropriate valuation techniques. Real estate funds are valued at fair value based on the most recent appraisal and earnings results. Income producing properties are valued at fair value based on the most recent appraisal.

d) Fair value

Accrued interest receivable, members' contributions receivable, employers' contributions receivable, dividends receivable, securities transactions receivable, other receivables, accounts payable and securities transactions payable are all short term in nature, therefore fair value approximates their carrying value.

e) Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimations.

f) Provision for accrued pension benefits

The provision for accrued pension benefits represents the most recent actuarial present value of accrued pension benefits extrapolated to the year end reporting date. Any resulting change in this provision is recognized as a revenue or expense in the statement of changes in net assets (liabilities).

g) Foreign currencies

Foreign currency transactions are translated into Canadian dollars using the transaction date exchange rate. Monetary assets and liabilities denominated in foreign currencies are adjusted to reflect exchange rates at the balance sheet date. Exchange gains or losses arising on the translation of monetary assets and liabilities or sales of investments are included in the statement of changes in net assets in the year incurred. Future changes in the fair value of foreign currency derivative financial instruments are recognized as gains or losses in the period of change.

h) Capital assets

Capital assets are stated at cost less accumulated amortization. Amortization is provided on the straight-line basis over their estimated useful life as follows:

Leasehold improvements	10	years
Furniture and equipment	4 – 10	years
Computer equipment	2 – 4	years

3. Significant Accounting Policies (continued)

i) Intangible assets

Intangible assets are stated at cost less accumulated amortization. Amortization is provided on the straight-line basis over the estimated useful life as follows:

Pension administration system	5 - 10	years

j) Income taxes

The Plan is not subject to income tax since it is a Registered Pension Plan as defined by the *Income Tax Act* (Canada).

4. Investments

The objective of the Plan is to maintain sufficient assets to discharge future pension obligations and to generate cash flow required for pension plan payments. The fund has the following investments:

Summary of Investment Holdings:

		2010		2009	
Type	Years to Maturity	Fair Value (000's)	Yield (%)	Fair Value (000's)	Yield (%)
Bonds					
Government of Canada	1 - 5	$ 65,542	2.3	$ -	
	6 – 10	14,761	3.0	-	
	10+	-		78,454	4.1 – 4.3
		80,303		78,454	
Provincial	10+	345,187	4.3 – 4.7	298,317	4.7 – 5.4
Corporate		130,467	3.4 – 4.8	133,277	4.4 – 5.5
Total bonds		555,957		510,048	
Bond pooled funds		493,857	3.1 – 4.2	483,812	3.4 – 4.7
Mortgage pooled fund		36,578	4.6	41,243	9.5
Equities and equity pooled funds					
Canadian equities		597,745		518,686	
Non-North American equities		314,683		282,952	
Non-North American pooled funds		227,931		174,422	
United States pooled funds		396,970		354,810	
Global pooled funds		428,693		385,830	
Total equities and equity pooled funds		1,966,022		1,716,700	
Other					
Short term investments		25,005		13,960	
Real estate pooled fund		166,310		80,122	
Real estate equity investments		65,407		37,819	
Cash		19,470		21,588	
Currency forward contracts		2,258		8,650	
Total other		278,450		162,139	
		$ 3,330,864		$ 2,913,942	

4. Investments (continued)

Bonds, bond pooled funds and mortgage pooled funds

Bonds are subject to a minimum quality standard of BBB or equivalent. In the active bond mandate, BBB bonds or lower may not be purchased if they comprise more than 15 per cent of the book value of the total portfolio of any individual manager. No single issuer is to exceed 10 per cent of the carrying value of the fund except for securities issued or guaranteed by the provincial or federal governments. No more than 20 per cent of the carrying value of the bond portfolio may be held in foreign issuer bonds. Pooled funds have no fixed distribution rate and returns are based on the success of the fund managers.

Equities and equity pooled funds

Pooled funds have no fixed distribution rates and returns are based on the success of the fund managers. No one holding of an individual stock may represent more than 10 per cent of the carrying value of the specific equity mandate. Stock shorting is permitted and limited to a band of 25 to 35 per cent of the carrying value, with a target of 30 per cent. At December 31, 2010 stock shorting was permitted in one investment mandate with a carrying value of $248,000,000 (2009 - $229,000,000).

Short-term investments

Short-term investments or money market securities are comprised of investments with less than one year to maturity. The Plan requires a minimum R-1 or equivalent rating.

Real estate pooled fund

The real estate pooled fund portfolio is diversified by property type and geographic location.

Real estate equity investments

The Plan invests in income producing properties through its 100 per cent owned subsidiary, Sunrise Properties Ltd. These properties are located in Ontario, Quebec, Alberta, and British Columbia.

Infrastructure

The Plan invests in infrastructure through its 100% owned subsidiary, Horizon Infrastructure SHEPP Holdings Ltd (Horizon). The purpose of Horizon is to own units of infrastructure in a pooled fund. During the year the Plan acquired 100 common shares of Horizon with a market value of $100.

Derivative financial instruments – currency forward contracts

Currency forward contracts are financial contracts, the value of which is derived from underlying assets or indices. Derivative transactions are conducted in the over-the-counter market directly between two counterparties or on regulated exchanges. Derivatives are permitted in the Statement of Investment Policy & Procedures (SIP&P) and may not be used for speculative purposes or to create net leverage of the Plan.

5. Determination of Fair Value

Fair value is best evidenced by an independent quoted market price for the same instrument in an active market. An active market is one where quoted prices are readily available, representing regularly occurring transactions. The determination of fair value requires judgment and is based on market information where available and appropriate. Fair value measurements are categorized into levels within a fair value hierarchy based on the nature of the inputs used in the valuation.

5. Determination of Fair Value (continued)

Fair value hierarchy classifies financial instruments measured at fair value at one of three levels according to the relative reliability of the inputs used to estimate the fair values.

Level 1 – Where quoted prices are readily available from an active market.

Level 2 – Valuation model not using quoted prices, but still using predominantly observable market inputs such as interest rates.

Level 3 – Models using inputs that are not based on observable market data.

	2010 (000's)				2009 (000's)			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
ort-term investments	$ -	$ 25,005	$ -	$ 25,005	$ -	$ 13,960	$ -	$ 13,960
nds, bond pooled funds and ortgage pooled funds	-	1,086,392	-	1,086,392	-	1,035,103	-	1,035,103
nadian equities	597,745	-	-	597,745	518,686	-	-	518,686
on-North American equities	314,683	-	-	314,683	282,952	-	-	282,952
nited States pooled funds	-	396,970	-	396,970	-	354,810	-	354,810
on-North America pooled nds	-	227,931	-	227,931	-	174,422	-	174,422
obal pooled funds	-	428,693	-	428,693	-	385,830	-	385,830
al estate pooled fund	-	-	166,310	166,310	-	-	80,122	80,122
al estate equity investments	-	65,407	-	65,407	-	37,819	-	37,819
rrency forward contracts	-	2,258	-	2,258	-	8,650	-	8,650
	$912,428	$2,232,656	$166,310	$3,311,394	$801,638	$2,010,594	$80,122	$2,892,354

Level 3 Reconciliation

	2010 (000's)	2009 (000's)
	Pooled Real Estate	Pooled Real Estate
Opening balance	$ 80,122	$ 6,489
Acquisitions	75,351	96,116
Dispositions	-	(21,467)
Change in unrealized gain/(loss)	10,837	(1,016)
	$ 166,310	$ 80,122

There were no changes in classification of any levels during the year.

6. Financial Risk Management

The nature of the Plan's operations results in a statement of net assets that consists primarily of financial instruments. The risks that arise are credit risk, market risk (consisting of interest rate risk, foreign exchange risk and equity price risk), and liquidity risk.

Significant financial risks are related to the Plan's investments. These financial risks are managed by having a Statement of Investment Policies and Procedures (SIP&P), which is subject to review and approval by the Board of Trustees not less than annually.

6. Financial Risk Management (continued)

Permitted investments under the SIP&P include equities; fixed income; cash and short-term investments; mortgages; derivatives; real estate; infrastructure and pooled funds. By investing in a well diversified portfolio of asset classes and further diversifying within each asset class, risk is reduced. The SIP&P sets out the asset mix to achieve sufficient asset growth on a risk controlled basis. The minimum, maximum and target weightings for each asset class, and sub-class, are clearly established within the total fund policy asset mix.

The SIP&P sets out a minimum quality requirement of "BBB" for bonds and debentures at the time of purchase; a minimum rating of "R-1" for short-term investments at the time of purchase and a minimum quality standard of "A" at the time of transaction for counterparties in a derivative transaction. Downgrades in qualities of an asset below the established purchased standards require immediate disclosure to the Board and require the affected investment manager to set out a course of action to resolve the deviation.

In addition the SIP&P includes maximum quantity restrictions. With limited specific exceptions, debt and equity holdings in a single company are limited to 10 per cent of the carrying value of the total fund. The fund may not invest directly or indirectly in the securities of a corporation representing more than 30 per cent of the votes that may be cast to elect the directors of the corporation. The fund may not invest in real property or Canadian resources properties if at the time (i) the carrying value of the investment in any one parcel of property exceeds five per cent of the carrying value of the fund; (ii) the carrying value of investments in Canadian resource properties exceeds 15 per cent of the carrying value of the fund; or (iii) the carrying value of all investments in real property and Canadian resource property exceeds 25 per cent of the carrying value of the Plan's assets.

Maximum quantity restrictions are also applied at the investment manager level. Each investment manager engaged by the Plan is responsible for investing the assets of the fund in accordance with the SIP&P, the mandate prescribed by SHEPP for the manager and the agreement under which SHEPP has contracted the manager's services.

Credit risk

Credit risk is the risk that one party does not pay funds owed to another party. The Plan's credit risk arises primarily from two distinct sources: accounts receivable and certain investments. The maximum credit risk to which the Plan is exposed at December 31, 2010 is limited to the carrying value of the financial assets summarized as follows:

	2010 (000's)	2009 (000's)
Cash	$ 19,470	$ 21,588
Accrued interest receivable	489	444
Members' contributions receivable	9,222	7,967
Employers' contributions receivable	10,329	8,923
Dividends receivable	2,196	2,600
Security transactions receivable	4,716	-
Other receivables	209	178
Short-term investments	25,005	13,960
Fixed income *	1,086,392	1,035,103
	$ 1,158,028	$ 1,090,763

*Fixed income is comprised of bonds, bond pooled funds, and mortgage pooled funds.

Members' and employers' contributions receivable, dividends receivable and security transactions receivable are generally received in less than 30 days. Accrued interest receivable is received on the next scheduled payment date, generally either annually or semi-annually.

6. Financial Risk Management (continued)

Credit risk within short-term and fixed income investments is managed through the investment policy that establishes a minimum credit quality for issuers and spreads the risk amongst several issuers. The investment policy requires a minimum credit quality for individual bonds of BBB for issuers at the time of issue unless otherwise specified in an investment manager's mandate and R-1 for short-term investments.

Credit ratings for fixed income investments are as follows:

	2010		2009	
Credit rating	Fair Value (000's)	Makeup of Portfolio	Fair Value (000's)	Makeup of Portfolio
AAA	$ 299,861	27.6%	$ 293,445	28.3%
AA	335,764	30.9%	305,989	29.6%
A	381,982	35.2%	360,653	34.8%
BBB	68,785	6.3%	75,016	7.3%
	$ 1,086,392	100.0%	$ 1,035,103	100.0%

The Plan is also subject to credit risk through its use of forward currency contracts. The contracts are entered into between the Plan and approved counterparties. The credit risk is mitigated by limiting counterparties to specific entities approved by the Board of Trustees.

At December 31, 2010 no Plan assets have been deposited or pledged as collateral or margin. As part of the Plan's securities lending strategy, collateral has been pledged to the Plan by various counterparties for securities out on loan to the counterparties. At December 31, 2010, the Plan's investments included loaned securities with a market value of $212,830,000 (2009 - $170,753,000) and the fair value of securities and cash collateral received in respect of these loans was $219,534,000 (2009 - $176,392,000).

Market risk

Market risk represents the potential for loss from changes in the value of financial instruments. Value can be affected by changes in interest rates, foreign exchange rates and equity prices. Market risk primarily impacts the value of investments.

Interest rate risk

The Plan is exposed to changes in interest rates in its cash, short-term investments, bonds, bond pooled funds and mortgage pooled funds. Duration is a measure used to estimate the extent market values of these investments change with changes in interest rates. Using this measure, it is estimated that a 100 basis point increase/decrease in interest rates would decrease/increase net assets by $156,312,000 at December 31, 2010 (2009 - $152,950,000); representing 13.8 per cent (2009 – 14.3 per cent) of the $1,130,847,000 (2009 - $1,070,650,000) fair value of these investments.

Foreign exchange risk

The Plan is subject to changes in the United States/Canadian dollar exchange rate on its United States denominated investments. Also, the Plan is exposed to other non-North American currencies through its investment in non-North American and global equities. At December 31, 2010, the Plan's exposure to United States equities was 19 per cent (2009 – 19 per cent) and its exposure to non-North American equities was 20 per cent (2009 – 20 per cent).

The Plan manages this risk through the use of currency futures or forwards. At December 31, 2010 the fair value of currency forward contracts payable was $1,126,481,000 (2009 - $938,989,000) and the fair value of currency fund contracts receivable was $1,128,743,000 (2009 - $947,678,000).

6. Financial Risk Management (continued)

Equity price risk

The Plan is exposed to changes in equity prices in Canadian, United States and other markets. Equities comprise 59.0 per cent (2009 – 58.3 per cent) of the carrying value of the Plan's total investments. Individual stock holdings are diversified by geography, industry type and corporate entity. A 10 per cent change in equity prices would result in a $196,602,000 (2009 - $171,700,000) change in the Plan's net assets.

Real estate risk

Risk in the real estate portfolio is managed through diversification across types and locations. Adverse impacts in any one segment of the market or geographic location are minimized by having holdings diversified across property type, geographic location and investment size.

Liquidity risk

Liquidity risk is the risk that the Plan is unable to meet its financial obligations as they fall due. Cash resources are managed on a daily basis based on anticipated cash flows.

7. Capital Assets

	Cost (000's)	Accumulated Amortization (000's)	Net Book Value 2010 (000's)	Net Book Value 2009 (000's)
Furniture and equipment	$ 152	$ 64	$ 88	$ 53
Computer equipment	93	63	30	32
Leasehold improvements	34	20	14	18
	$ 279	**$ 147**	**$ 132**	$ 103

8. Intangible Assets

	Cost (000's)	Accumulated Amortization (000's)	Net Book Value 2010 (000's)	Net Book Value 2009 (000's)
Pension administration system	$ 2,415	$ 1,398	$ 1,017	$ 1,263

9. Investment Income

	2010 (000's)	2009 (000's)
Bond interest	**$ 12,084**	$ 11,231
Dividends	**39,422**	35,705
Interest on short term investments and cash balances	**285**	246
Other income	**386**	538
	$ 52,177	$ 47,720

10. Related Party Transactions

These financial statements include transactions for the Plan's administrative expenses paid to SAHO. All transactions are recorded at the exchange amounts agreed by the two parties.

	2010 (000's)	2009 (000's)
Expenses	$ 70	$ 67

11. Provision for Accrued Pension Benefits

The provision for accrued pension benefits is the actuarial present value of the future expected pension benefit obligation to members as determined by the actuarial valuation done by Aon Consulting Inc., an independent actuarial consulting firm, at least every three years. The last actuarial valuation was performed as of December 31, 2009. The present value of accrued pension benefits was then extrapolated to December 31, 2010 using the funding valuation cost method with the expectation that the Plan will continue on an ongoing basis.

The actuarial present value of accrued pension benefits as at December 31, 2010 and the principal components of changes in this value during the year were as follows:

	2010 (000's)	2009 (000's)
Provision for accrued pension benefits, beginning of year	$3,782,400	$ 3,512,971
Service accrued	175,150	169,800
Benefits paid	(143,486)	(130,000)
Interest expense	246,885	229,629
Change in actuarial assumptions	(310,000)	-
Experience losses	14,351	-
Provision for accrued pension benefits, end of year	$ 3,765,300	$ 3,782,400

The assumptions used in determining the provision for accrued pension benefits may change from year to year depending upon current and long-term market conditions. The following is a summary of the significant actuarial assumptions:

Assumptions	2010	2009
Discount rate	7.25%	6.50%
Inflation rate	2.50%	2.75%
Mortality table	UP94 projected to 2020	UP94 projected to 2015
Remaining service life	11.5 years	11.4 years
Salary Projection		
• SUN Members	5.00% for 2011 and 3.50% thereafter plus 2.0% for any member who attains 20 years of service	5.00% for 2010 to 2011and 3.75% thereafter plus 2.0% for any member who attains 20 years of service
• All Other Members	2.00% for 2011, 3.75% for 2012 and 3.50% thereafter	4.25% for 2010 to 2011 and 3.75% thereafter

The following illustrates the effect of changes in the interest rate and the salary and pensionable earnings assumptions:

- A one per cent change in the discount rate results in approximately a 14 per cent change in the provision;
- A one per cent change in the salary scale and the pensionable earnings levels results in approximately a 3 per cent change in the provision.

12. Commitments

SHEPP has entered into an agreement to lease office space for a period of 10 years expiring in 2014. The rent is charged to operations in the years to which it relates. The future minimum lease payments are as follows:

	(000's)
2011	$ 153
2012	153
2013	153
2014	13

13. Comparative Figures

Certain of the comparative figures have been reclassified to conform with the current year's presentation.

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Phillips, Hager & North Investment Management Ltd
Wellington Management Company, LLP